

Regional Operating Headquarters Sourcing and Outsourcing: Thailand's goods and services Opportunities

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In the search for cost-savings to remain competitive, global sourcing is a necessity rather than an option for the world's leading companies. And when it comes to infrastructure availability, labor and transportation costs, regulatory burdens, raw materials, and capital and trade costs, many of the world's largest multinational companies are increasingly finding Thailand to be the most competitive destination.

In addition to sourcing parts and components, Thailand is also well situated to become the location for your regional operating headquarters (ROH), and offers an attractive tax incentive package that will present significant cost-savings. So far about 90 ROHs have already been established in Thailand.

Why Thailand?

With a highly developed level of infrastructure and proximity to Asia's biggest markets, Thailand is a natural regional logistics hub. Geographically, Bangkok is closer to the heart of Asia than any other Asian city aside from Shanghai and Taipei, an incredibly important factor when considering transportation costs, time to delivery of goods, and access to supply and distribution networks.

Air transport – Thailand is home to six international airports, affording access to all regions. A state-of-the-art facility located in the outskirts of Bangkok, Suvarnabhumi currently services 116 airlines and in 2011 handled 47.9 million passengers as well as nearly 3 million tons of cargo.

Its ongoing phase-two project will uplift capacity to 60 million passengers. Suvarnabhumi has been ranked as the 10th best airport globally by the London-based aviation research institute Skytrax. Don Muang is also a major airport in Bangkok. Other international airports are spread throughout the country in Chiang Mai, Chiang Rai, Phuket, Hat Yai and Udon Thani. There are also 27 domestic airports for expedient alternatives. Four thousand miles of internal waterways, 4,000 miles of railways with international connections, and over 64,000 miles of well-maintained highways put Thailand well above its neighbors for transportation capacity.

Sea Trade – For trade between Southeast Asian nations, sea shipping still remains the most popular option by volume. Thailand has 8 deep-sea ports and is expanding its infrastructure to meet demands of the future. Laem Chabang seaport on the Eastern Seaboard region, for instance, is already among the world's 20 busiest seaports in terms of cargo throughput, currently handling approximately 7.7 million TEUs of cargo

In June 2012, the government announced plans to expand capability at Laem Chabang under efforts to further reduce logistic costs for manufacturers, importers and exporters, increasing the global competitiveness of enterprises in Thailand. The second-phase expansion project will augment capacity to 10.8 million TEUs a year with an additional three berths going into service by 2019. Third-phase expansion targets 18.8 million TEUs, 2.568 million metric tons of general cargo and 1.95 million vehicles per year. This will keep up with Thailand's robust economy and trade requirements in the following two decades and beyond.

Land Use – Bangkok ranks #121 on Mercer Human Resource Consulting's list of the world's most expensive cities, and is similarly competitive on CB Richard Ellis' survey of Total Occupancy Costs for offices, far cheaper than other regional contenders in India, China, Malaysia, Singapore, Vietnam, Indonesia, and the Philippines.

Taxes and Regulatory Burden – These are also an area in which Thailand is very competitive. The World Bank's Ease of Doing Business survey ranked Thailand #17 out of 183 countries surveyed for 2011, finding Thailand one of the easiest places in the world to access credit, deal with licenses, and register property. As another example of the kingdom's pro-business policies, the graph shows the average number of hours per year spent filing tax returns for an incorporated firm across a spectrum of countries.

ICT –As encouraged by the government's "Smart Thailand" development program, the country's is also seeing its information-technology infrastructure grow with lightning speed. Mobile, broadband and fixed-line infrastructure now covers 87% of the total population. Thailand currently has 24 million Internet users and 69 million mobile phone users. Continued advancement in local software designing will keep the country at the cutting edge of digital logistics for the benefit of all industries. Furthermore, current ICT reform is opening the market up to new players with less regulation and government concessions, a development which will lead to significantly cheaper access fees.

These numerous advantages make it an ideal destination to source and outsource both goods production and provision of services, yet to get an idea of the kingdom's potential, one only needs to look at some of the leading global companies who have set up operations here.

The food sector is well represented. Nestle (Thai) Ltd. joined the ROH scheme in 2009, choosing Thailand as regional headquarters for several reasons.

"Because of its central location in Asia, Thailand is a natural geographic hub. It is easy to come here as a business meeting place. The Thai economy is also sound, the facilities are very good, and the country has a good infrastructure for the expatriate community. I think Thailand will play an even stronger role in the region for ROH,"

Nophadol Siwabutr, director of Corporate Affairs at Nestle (Thai).

Years of successive investment in the automotive sector has helped make auto production the second largest component of Thailand's exports. Some of the world's largest manufacturers, including Honda, Isuzu, Toyota, GM, Ford and Mitsubishi, have production facilities with capacities upwards of 100,000 units/year, investments which were quickly followed by production of parts and components facilities. Presently, these same companies are increasingly investing to integrate supporting business services with the facilities where goods are produced.

Honda, for instance, has opened its Asian Parts Centre to support and oversee production, sales, distribution, and export of automobiles, motorcycles, and 70,000 types of parts and components to 70 different countries. Asian Honda Motor runs its ROH in Thailand, serving to organize logistics and parts procurement for much of the Asia-Pacific region. Honda is not only investing to improve capacity for auto parts production to serve domestic and world markets, but at the same time is expanding its R&D functions here, including a recent THB 2.3 billion investment.

Similarly, Toyota has opened the Toyota Motor Corps Asia-Pacific office as its regional headquarters in Thailand, supporting services across ASEAN, India, and Taiwan. The regional base in Thailand will also run staff training courses in production processes, logistics, quality control, and maintenance for employees coming from countries such as India and Pakistan to Taiwan and the Philippines, training 4,000 employees a year.

In the electronics and electrical appliances sector, Royal Philips Electronics has been operating a Shared Services Center (SSC) in Bangkok since 2002, offering multiple services to customers in 15 countries in 6 different languages, including reporting, accounts payable and receivable processing, planning, and purchasing. Looking to reduce overhead costs by consolidating similar processing and service functions from around the globe, Philips was able to set up the SSC within a 12-month period in Bangkok, the site deemed to have the best mix of infrastructure availability, political stability, labor costs, educated work force, and general ease of doing business.

Providing services in the petrochemical sector, ExxonMobil also set up a Business Support Center in Bangkok in 2003, supporting affiliates in Thailand and elsewhere in the Asia-Pacific Region and employing 600 staff. This ROH supports operations including accounting services, information systems, payroll and human resources data administration, accounts payable and customer services.

"Thailand was chosen because of the company's long-term success in the country. In addition, Thailand has proven to be competitive in many important areas, including infrastructure, availability of relevant skills, language proficiency, and legal and statutory requirements. I am confident that with the support of the Thai government, we will be able to achieve a world-class standard both in terms of the quality and the cost of the services that we will provide. I believe it will provide great benefits to both Thailand and ExxonMobil over the long term."

David Levy, former country manager, ExxonMobil

Other than being global leaders with years of experience in their respective fields, the preceding companies also have something else in common: They have all been promoted by the Board of Investment (BOI). Government policies further support the kingdom's inherent strengths as a center for sourcing and services outsourcing.

The Thai government offers very attractive incentives for ROHs with two options for investors.

- The first option is the current ROH tax regime which has been implemented since 2002, and still effective.

- The second one is the new ROH tax regime approved by the Cabinet on June 2, 2010. However, the second option is a temporary measure applied only to ROHs that have notified the Revenue Department within 5 years from the date the relevant law becomes effective.

Summary of ROH Criteria & Benefits

	Option #1 Current ROH Tax Regime	Option #2 ** New ROH Tax Regime
1. Criteria	<input type="checkbox"/> Paid-up capital of at least 10 million baht <input type="checkbox"/> Establishment of 3 associated companies/ branches in the 1 st year <input type="checkbox"/> Income generated from overseas services \geq 50% of total company income	<input type="checkbox"/> Paid-up capital of at least 10 million baht <input type="checkbox"/> Establishment of associated companies/branches establishment: in at least 1 country within the 1 st year, at least 2 countries within the 3 rd year, and at least 3 countries within the 5 th year <input type="checkbox"/> Having staff working for ROH services and running business operation <input type="checkbox"/> Having operating expenses \geq 15 million baht/year or investment spending \geq 30 million baht/year <input type="checkbox"/> By the end of 3 rd year, having skilled staff of at least 75% of employees, and at least 5 employees, that receive remuneration of at least 2.5 million baht/year
2. Corporate Income Tax <input type="checkbox"/> Overseas income <input type="checkbox"/> Local income	<input type="checkbox"/> 10% unlimited period <input type="checkbox"/> 10% unlimited period	<input type="checkbox"/> Exempt for 10 years* <input type="checkbox"/> 10% for 10 years*
3. Dividends	Exempt	Exempt for 10 Years (If income generated from overseas services \geq 50% of total company income)
4. Interest	10% unlimited period	10% for 10 Years* (If income generated from overseas services \geq 50% of total company income)
5. Royalties	10% unlimited period	10% for 10 Years* (If income generated from overseas services \geq 50% of total company income)
6. Personal Income Tax for each foreign employee	Flat rate of 15% for a period not more than 4 Years	Flat rate of 15% for a period not more than 8 years (If income generated from overseas services \geq 50% of total company income)
7. Accelerated Depreciation	Accelerated Ratio (25% of asset value in 20 years)	-
8. Notification Period	No time limit	Within 5 years from the date the relevant law becomes effective

* Extension of 5 years if all criteria have been met and if the company's accumulated operating expenses exceed 150 million baht by the end of the 10th year.

** Effective date published in Royal Gazette

The BOI promotes the following activities, which have varying respective tax and non-tax incentives:

- Regional Operating Headquarters, operating in at least 3 countries
- International Procurement Offices, involving sourcing, quality control, and packaging
- International Distribution Centers covering at least the Southeast Asia region
- Business Process Outsourcing
- Design Centers and activities involving product design
- Research and Development

Incentives packages vary with each promoted activity.

Please look at the Eligible Activities list on the BOI's website: www.boi.go.th for more details on incentives and conditions.